HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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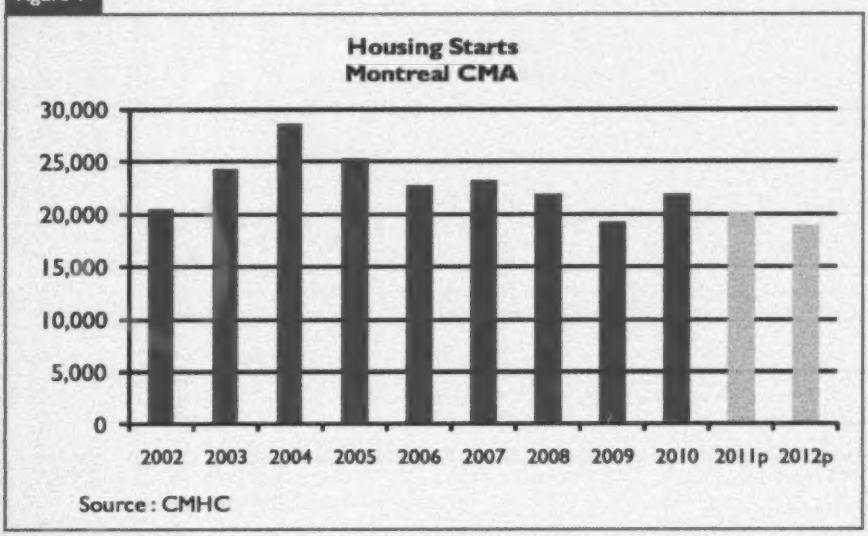
Montréal area housing market in 2011 and 2012

In 2011, demand for existing homes will be much less volatile than in the last two years, as a result of the more moderate economic growth and the anticipated relatively stable mortgage rates. In addition, the fact that demand was moved up to 2010 will limit housing activity this year. The level of MLS® transactions will therefore be almost the same as in 2010. As well, with the greater number of properties for sale, the market will ease gradually through the year but still remain favourable to sellers.

In this context, fewer buyers will be turning to the new home market, and housing starts will decrease. More particularly, condominium starts will fall in 2011, after reaching a record

Figure 1



[1]The forecasts included in this document are based on information available as of April 28, 2011.

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level last year, as the market will be adjusting to a growing number of units to be absorbed.

Next year, transactions on the resale market will increase slightly faster, thanks in part to employment growth picking up in the Montréal census metropolitan area (CMA). Demand will still be moderated by the expected rise in mortgage rates. This last factor, combined with the easing of the resale market, will cause housing starts to register another drop.

2011-2012 economic context

Across Quebec, the economy will post moderate growth in 2011. After the rebound in economic activity that occurred in the middle of 2009, the economy experienced a phase of weaker growth. In 2011, the economy will be supported by private investments that will progressively take over from the government stimulus measures, which are drawing to an end. In this economic context, GDP will grow by 2.5 per cent in 2011 and 2012.

In the Montréal CMA, economic conditions will support job creation, but employment gains will be less significant than in 2010, when the labour market had recorded strong growth, thanks to the rebound in economic activity, and had recovered almost all the jobs lost during the economic slowdown. In 2011, fuelled by private investment, employment growth will be more stable, reaching 1.4 per cent. In 2012, the growth will continue at a rate of 1.8 per cent. According to our forecasts, the unemployment rate will attain about 8 per cent this year and next year.

Mortgage rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010, when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short-term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Migration

Several demographic factors will support housing demand this year in the Montréal metropolitan area. Net migration will continue to be fuelled by high immigration. In fact, the immigration target set by the Quebec government for 2011 is similar to that established for 2010, at about 55,000 people[2].

Since Montréal welcomes the vast majority of newcomers to Quebec year after year, a large number of immigrants will settle in the area. This will contribute to stimulating demand on the rental market, as immigrants often opt for rental dwellings when they arrive. However, the impact of this influx of migrants on demographic growth will be partly offset by the increase in the interprovincial migration deficit. In fact, the economic outlook for the provinces that attract residents from Montréal, namely, Ontario, Alberta and British Columbia, will be relatively brighter in 2011. Drawn by the opportunities available there, more residents will leave the metropolitan area to settle in these provinces. These factors, combined with the departure of a significant number of inhabitants from the CMA to other areas across Quebec, will cause overall migration in the Montréal area to decrease this year from 2010, and the net level will reach 32,000 people in 2011 (-6.2 per cent) and 33,500 in 2012 (+5 per cent).

Resale market

According to data from the QFREB, 42,308 MLS® transactions were registered in the Montréal CMA in 2010, for an increase of 1.3 per cent over 2009. However, 2010 was marked by an existing home demand that evolved in two phases. Inflated by the home buying catch-up and move-up effects, attributable to the economic

[2]Ministère de l'Immigration et des Communautés culturelles, Plan d'immigration du Québec pour l'année 2011, October 2011

recovery and the anticipated rise in mortgage rates, the number of transactions was exceptionally high in the first quarter of 2010. As a large part of the demand was met at the beginning of the year, activity then slowed down in the spring, and sales declined considerably during the summer and fall.

In the first quarter of 2011, despite an 11-per-cent decrease in MLS® sales according to the QFREB, mainly due to the exceptionally high number of transactions registered in the first quarter of 2010, activity on the resale market remained significant. Given the relatively stable mortgage rates and the moderate economic and employment growth, housing demand should be much less volatile in 2011 than during the previous two years. With a portion of potential buyers having already met their housing needs in 2010, the level of transactions will be about the same in 2011 as in 2010. In all, 42,600 sales should be recorded this year, for a small increase of 0.7 per cent compared to 2010. The number of transactions should again rise more rapidly in the condominium segment than in the freehold home or plex segments. This will be largely attributable to the fast growth in the condominium housing stock, as a result of the large number of units of this type started in recent years.

On the supply side, after having decreased by 9 per cent last year, particularly on account of the very high volume of transactions registered at the beginning of 2010, active listings will gradually rise again, reaching an average of 23,300 properties in 2011. This increase in supply will result from the greater stability of the demand and a measured increase in new listings. The market will therefore ease progressively throughout the year but will remain favourable to sellers overall, which will contribute to keeping the pressure on prices. The growth in the average MLS® price will be slightly lower in 2011 than in 2010 (+8.3 per cent) but will still be relatively substantial (+5 per cent). The average price will reach $312,500 in the Montréal CMA.

The single-family home and plex markets will continue to favour sellers in 2011, while the condominium market will become balanced during the course of the year. It will be in this last segment that the marked growth in listings will in fact be felt the most significantly.

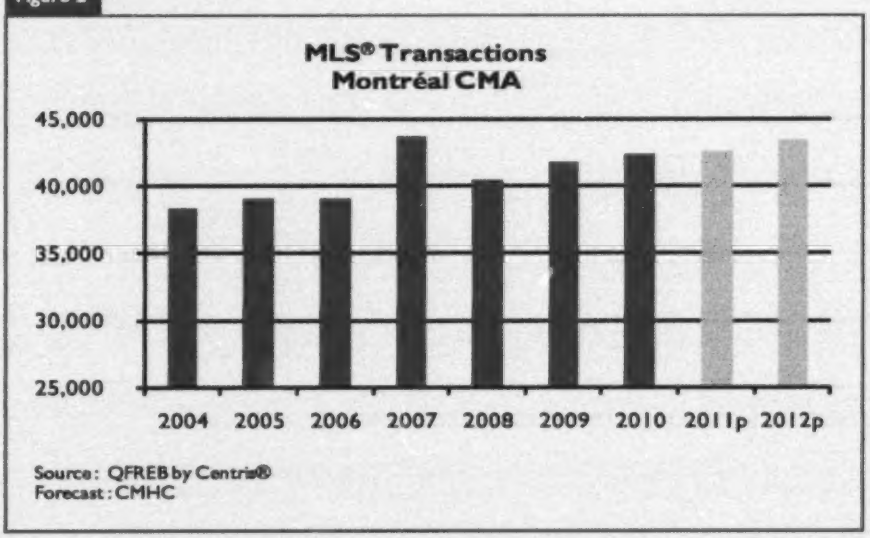
In 2012, transactions will rise by 2.1 per cent to 43,500 sales. This increase will be due, in part, to slightly greater employment growth. However, demand will be moderated by the anticipated increase in mortgage rates. New listings will rise modestly, and there should be an average of 24,000 active listings. The market will continue to ease gradually, but conditions will remain favourable to sellers. Consequently, the average price will increase less significantly in 2012 (+3 per cent) than in 2011, attaining $322,000.

New home market

After having posted renewed activity in 2010 as a result of the scarce supply on the resale market, the new home market experienced a slowdown at the end of the year, which will continue in 2011. The easing of the resale market and the record number of condominium starts registered in 2010 will have been the main causes of this slowdown. Following a gain of 14,3 per cent in 2010, housing starts will drop by 8.4 per cent in 2011. In all, 20,150 new dwellings will get under way this year, compared to 22,001 in 2010. After having exceeded household formation for the last decade, the volume of starts is now following this level more closely.

Single-detached home starts will decline by 9.3 per cent, falling from 5,789 units in 2010 to 5,250 in 2011. Since the resale market will be less tight, fewer buyers will be turning to the new home market this year. Single-detached houses will account for just over a quarter of all new dwellings started in the Montréal

Figure 2



Source: QFREB by Centris®
Forecast: CMHC

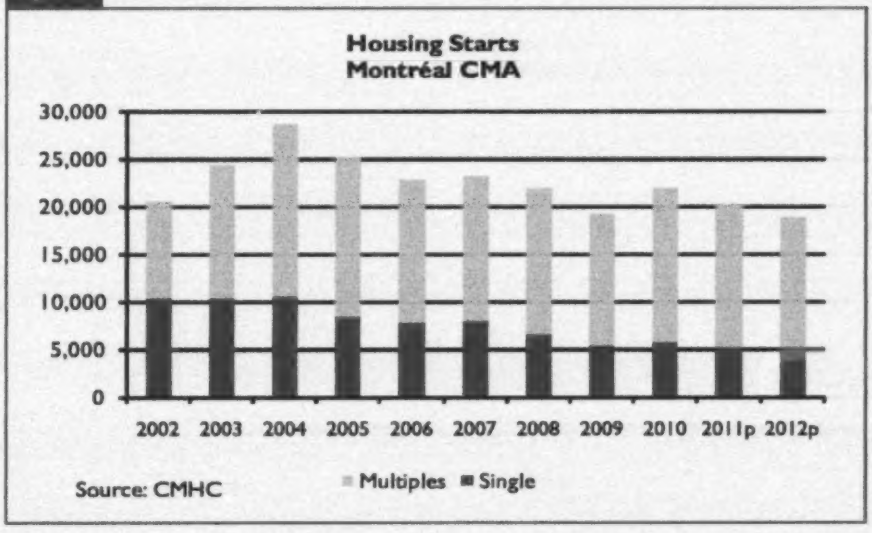
CMA in 2011, while their share was above 50 per cent at the beginning of the last decade. The growth in prices observed for the last few years has been such that demand has shifted toward more affordable housing types, like semi-detached and row homes and condominium apartments. The decrease in activity will also affect the multi-unit housing segment. Foundations will be laid for a total of 14,900 units in 2011, down by 8.1 per cent from 2010. After a record year in 2010 (10,457 starts), condominium construction will slow down in 2011 and will be the main reason for the decline in the multiple-family housing segment. In the summer of 2010, the pace of construction exceeded the rate of absorption observed in recent years for condominiums. In 2011, for the first time in four years, inventories of new condominiums available in the short term will rise. The condominium market will still account for a significant share of residential construction, as nearly one in two units started in the Montréal CMA in 2011 will be a condominium. As well, despite the decline, just over 9,000 starts are expected, which will be the third highest annual total, after the peaks reached in 2004 and 2007. Condominium starts will again be evenly distributed between the island and the suburbs.

In the freehold segment, semi-detached and row home starts will also decrease. Just over 2,500 units will be started in 2011, versus 2,811 in 2010, a record year for this housing type.

Construction will get under way on more than 3,000 rental housing units in 2011, about the same number as in 2010 (2,944 units). The average annual number of starts in this segment exceeded 5,000 units over the period from 2003 to 2009, during which time many retirement homes were built. This segment is currently facing a weaker potential demand, as the formation of households among people aged 75 years or older has been slower for the past few years, echoing the low birth rate registered during the Great Depression of the 1930s.

In 2012, housing starts will decline again, as 18,900 dwellings will get under way, for a decrease of 6.2 per cent from 2011. The continued easing of the resale market and the anticipated rise in mortgage rates will be the main factors that will limit demand for new homes. Single-detached home building will decline only slightly (-1 per cent), reaching 5,200 units, but this volume will remain low in comparison with the average for the last decade (around 8,000 units per year). The drop will be more marked in the multi-unit housing segment (-8.1 per cent), as 13,700 units will be started. Condominium construction will continue to slow down, to allow for the absorption of the many units built in 2010 and 2011. The rise in inventories will force builders to slacken the pace, and construction should begin on 8,000 units, a level still comparable to the average for the years 2005 to 2009.

Figure 3

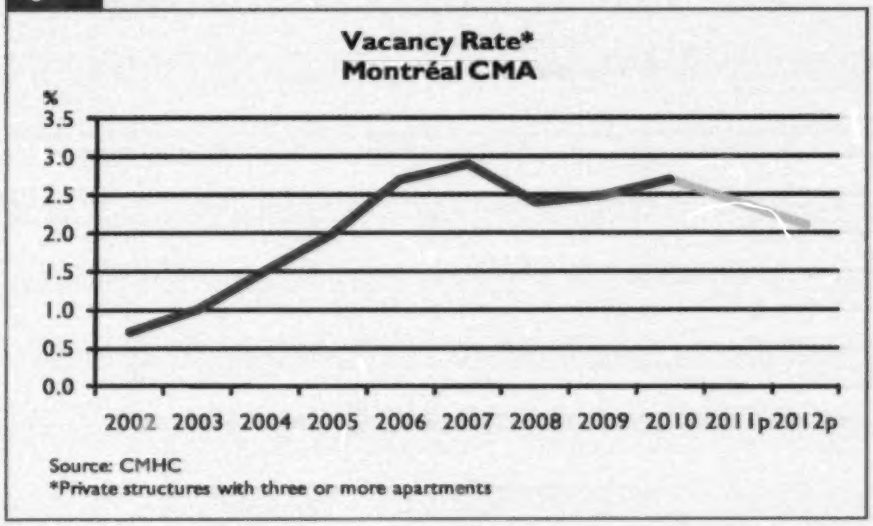


Rental market

In 2011, the rental housing vacancy rate will decrease slightly to 2.4 per cent, from 2.7 per cent in 2010. The movement to homeownership will be much less significant than in past years and, also, international migration will fuel the rental housing demand. Combined with a stable supply of units, these factors will result in a certain tightening of the market this year.

Next year, these same factors will continue to have an impact on the rental market. Also, with the progressive rise in interest rates, demand for rental housing will increase again, which will cause the market to tighten further. In 2012, the vacancy rate will reach 2.1 per cent.

Figure 4



Source: CMHC
*Private structures with three or more apartments

Forecast Summary Montréal CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market[1]							
MLS® Sales	40,441	41,753	42,308	42,600	0.7	43,500	2.1
MLS® Active Listings	23,202	23,443	21,340	23,300	9.2	24,000	3.0
MLS® Average Price ($)	262,616	274,837	297,661	312,500	5.0	322,000	3.0
New Home Market							
Starts:							
Single-Detached	6,602	5,446	5,789	5,250	-9.3	5,200	-1.0
Multiples	15,325	13,805	16,212	14,900	-8.1	13,700	-8.1
Semi-Detached	758	922	1,010		n/a		n/a
Row/Townhouse	665	1,034	1,231		n/a		n/a
Apartments	13,597	13,264	13,084		n/a		n/a
Starts - Total	21,927	19,251	22,001	20,150	-8.4	18,900	-6.2
Average Price ($):							
Single-Detached	340,757	355,089	343,513	350,000	1.9	357,000	2.0
Semi-Detached	239,340	257,248	258,968	268,000	3.5	276,000	3.0
New Housing Price Index (% chg.)	4.9	2.4	3.1	2.6	-	1.8	-
Rental Market[2]							
October Vacancy Rate (%)	2.4	2.5	2.7	2.4	-	2.1	-
Two-bedroom Average Rent (October) ($)	659	669	700	705	-	715	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	1,917,200	1,905,400	1,954,200	1,981,900	1.4	2,017,400	1.8
Employment Growth (%)	0.5	-0.6	2.6	1.4	-	1.8	-
Unemployment rate (%)	7.4	9.2	8.6	8.1	-	7.9	-
Net Migration	24,074	33,425	34,130	32,000	-6.2	33,600	5.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1]Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2011-2012)

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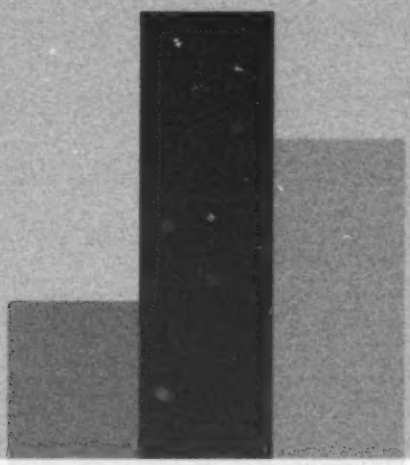

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